

# EIRGRID INTERCONNECTOR DAC

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## RE: Locational Pricing Assessment – Call for input following first stakeholder session (26th May 2022)

EirGrid Interconnector Designated Activity Company (EIDAC) welcomes the opportunity to respond to Ofgem’s initial call for input on the potential benefits, costs and implementation requirements associated with transitioning to a zonal or nodal wholesale market design.

Ofgem’s assessment of appropriate wholesale energy market reform in GB to support net zero carbon policy objectives is both timely and consistent with global developments. Locational Marginal Pricing is well established and a successfully implemented market design that can bring benefits to consumers and incentivise appropriate direct inward investment.

We note that Ofgem have requested written feedback related to:

1. The key opportunities associated with introducing more granular locational pricing in GB;
2. The key implementation challenges, risks and mitigations; and
3. The proposed approach to modelling zonal and nodal market designs.

EIDAC’s response to this initial short call for input addresses question 2 in particular.

We note that Session 3 of the initial workshop addressed “Policy Interactions”<sup>1</sup>. The discussion summary as set out refers to within zone policy interactions (e.g. TNUoS and DUoS charging) but does not explicitly refer to potential cross-zonal policy impacts.

We suggest that further consideration is given to the potentially significant challenges and risks posed with aligning a future locational price market design in GB with adjacent cross zonal market arrangements. In particular with reference to the existing requirement to implement Multi Regional Loose Volume Coupling (MRLVC) as set out in relevant Annex of the UK-EU Trade and Cooperation Agreement (TCA).

Firstly the stated benefits of the published Cost Benefit Analysis (CBA) for MRLVC are only set out against the existing wholesale GB market arrangements with key supplementary assumptions related to single GB price formation. It is therefore unclear how MRLVC would impact with and integrate with a local marginal pricing design in GB. The timing and process of GB price formation is a critical component of the MRLVC design.

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<sup>1</sup> <https://www.ofgem.gov.uk/sites/default/files/2022-05/Ofgem%20Locational%20Pricing%20Assessment%20-%20Note%20from%20First%20Workshop.pdf>

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Secondly, Session 3 summarizes that for the Locational Pricing Assessment *“the status quo/counterfactual will assume no incremental changes to current wholesale and balancing mechanism”*. As a consequence it is unclear if its proposed that the Locational Price Assessment itself addresses the impact of MRLVC at all. If it is assumed that MRLVC is implemented in advance of locational marginal pricing within GB then we suggest that it is appropriate that the costs and social welfare impacts of the Locational Pricing Assessment take into account cross border trading arrangements currently under development (i.e. MRLVC).

EIDAC suggests that a risk assessment workshop examining timeline, implementation and challenges associated with the proposed implementation of locational marginal pricing and the parallel on-going implementation of UK-EU cross zonal market arrangements (MRLVC) is advisable. We would also suggest the output of this risk assessment could inform the appropriate counterfactual scenario(s) for the Locational Pricing Assessment.

We welcome the opportunity to participate in future stakeholder sessions to contribute to the wider scope of engagement proposed.

[sent by email and accordingly bears no signature]

Fergal McParland  
Commercial Manager, EIDAC

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CC John Ging, Head of Interconnection Operations  
CC Margaret McCarthy, Interim Head of Regulation